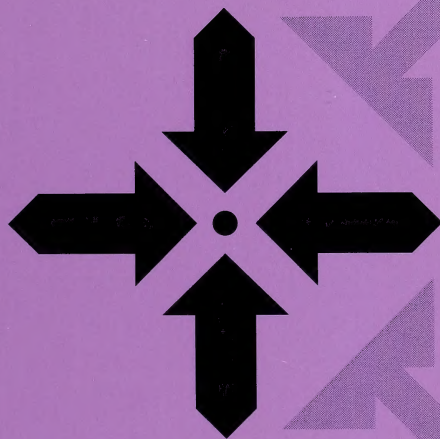


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Economic  
Development  
And Tourism

# Operating a Small Service Business

# SERVICE BUSINESS



**Alberta**  
ECONOMIC DEVELOPMENT  
AND TOURISM

  
Alberta Treasury Branches  
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## Operating a Small Service Business

### Operating a Small Service Business

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# Operating a Small Service Business

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## *Foreword*

This book is neither an exhaustive review of business planning needs nor a substitute for competent advice from professional advisors. To discuss in detail all types and aspects of service businesses is beyond the scope of this publication. Instead, the objective of this handbook is to provide simple introductory business advice to owner/managers of new or existing small service enterprises.

The service industry represents a significant segment of the total number of small and medium-sized businesses in Alberta. It includes such businesses as service stations, repair shops, restaurants, hotels, auto-body shops, hairdressers, contractors, dry-cleaners, building maintenance services and many other types of enterprises. Service businesses vary in size from firms with several hundred employees to the more common companies with fewer than five employees.

Establishing or operating a business, whether it be retail, service or manufacturing, is often challenging and time consuming. While large firms have more personnel and greater depth of management expertise, the manager of a small service enterprise must perform several functions. He or she must have expertise in finance, production, marketing, purchasing, design, accounting and labour relations. Starting and managing a business also requires a personal commitment in time, effort and money.

The material that follows is a general guide for entrepreneurs. Every effort has been made to ensure the information is correct and current; however, all information is subject to change. It has also been presented in a generalized form. Unique situations have not been identified. The information should therefore be used only as an introduction to the needs and requirements of your business.

Depending upon your particular situation, the action you take should be initiated after consulting the appropriate business management consultants, accountants, lawyers, industrial associations, etc. They will be able to provide the specific advice necessary for your circumstances.

The Business Counselling and Development Branch of Economic Development and Tourism offers a counselling service in such areas as financing, marketing, merchandising and manufacturing. Professional counsellors located throughout the province are available to assist you with simple, straightforward advice. This service is provided at no cost to small business people who want help "to help themselves".

*Operating a Small Retail Business* is one of a series of booklets published by Alberta Economic Development and Tourism. Other booklets that may be useful are:

- *Starting a Small Business*
- *Financing a Small Business*
- *Marketing for a Small Business*
- *Operating a Small Manufacturing Business*
- *Operating a Small Service Business*
- *Bookkeeping for a Small Business*

These publications are available at all Alberta Economic Development and Tourism offices listed in the back of this publication.

# Table of Contents

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## Foreword

<b>Chapter 1</b>	<b>Location</b>	
	Site Selection	1
	Whether to Rent or Purchase Facilities	2
<b>Chapter 2</b>	<b>The Importance of Business Planning</b>	
	Long-Range Planning	4
	Short-Term Planning	5
<b>Chapter 3</b>	<b>Legal Obligations</b>	
	Business Licenses	6
	Employer's Responsibilities	6
	Insurance	7
	Bonding	7
<b>Chapter 4</b>	<b>Marketing</b>	
	Finding the Sales Potential	9
	Attracting Customers	10
	Advertising	11
	Advertising Planning	11
	Media	12
	Trade Associations	12
<b>Chapter 5</b>	<b>Pricing</b>	
	Pricing Decisions	13
	Price/Volume Relationship	14
	Estimating	14
<b>Chapter 6</b>	<b>Personnel</b>	
	Recruiting	16
	Employee Relations	17
	Wages and Salaries	17
	Profit Sharing	18
	Other Aspects of Personnel Management	18
<b>Chapter 7</b>	<b>Financing</b>	
	Break Even Analysis	21
	Ratio Analysis	23



<b>Chapter 8</b>	<b>Business Records</b>	
	Bookkeeping	25
	Departmentalizing	26
	Inventory Management	26
	Accounts Receivable	27
<b>Chapter 9</b>	<b>Management Improvement Areas</b>	
	Planning	29
	Record Keeping	30
	Marketing Programs	30
	Personnel	31
	The Need for Expertise	31
	Time Management	31
	Money Management	32
	Outside Consultants	33
	<b>Appendix</b>	
	Provincial Authorities	34
	Federal Authorities	35
	Alberta Treasury Branches	37
	Alberta Economic Development and Tourism Offices	41



# Location

## Chapter One

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For some service businesses, such as restaurants, motels and dry-cleaners, good location is essential. For other businesses, such as trucking, location is less important.

Time spent on thoroughly investigating a potential location or site is seldom wasted. The prospect of low rent and attractive leaseholds can often lure prospective businesspeople into poor locations. Every business venture is a risk, but with a poor location you are tempting fate!

Business planning requires careful consideration of not only location of the site, but also of the surrounding district, if you are expecting to draw business from it. Plan your business carefully and then fit it to the location, not the other way around.

### *Site Selection*

Carefully consider the neighbourhood, or in a rural area, the town in which you will locate. Ask yourself, for example, whether the community is run down. Is it growing? What is the age of the area? Older, established communities generally have different shopping needs and tastes than developing areas consisting of families with small children. Similarly, low, medium and high income families generally have different spending habits that could determine the acceptance of your service.

Consider other factors such as the growth potential over time. Are there many apartment dwellers or single family residences; what are their spending habits? Is the community dependent on a single industry? What would happen if there were a prolonged strike or if the industry faced a recession? Check with Statistics Canada or the Alberta Bureau of Statistics for information on your chosen area. Also, the Business Counselling and Development Branch of Alberta Economic Development and Tourism has community profiles of rural locations.

Assess the competition. How many similar businesses are in the vicinity? To determine your competitive position, review the type, quality and price of the services they offer. In some cases, a business is built up over time, based on the personal attributes of its owner. Decide if you can break into a market that is presently captured through the personality and aggressiveness of an existing business owner.

To assess potential competition, ask questions such as: How many firms offer the same service and how large are they? Do they look prosperous? What apparent advantages do they have? Did any firms offering similar services go out of business last year? Why? Which firm will be your biggest competition? How many competitors started up recently?

New businesses should use a score sheet such as the one below to compare potential sites. Grade each item according to "A" for excellent, "B" for good, "C" for fair and "D" for poor.

	Item	Grade
(1)	Possible competition nearby	
(2)	Proximity to market	
(3)	Traffic flow - pedestrian/vehicle	
(4)	Availability of employees	
(5)	Prevalent rates of employee pay	
(6)	Provision for future expansion	
(7)	Type and cost of lease	
(8)	Physical suitability of building	
(9)	Community assessment	
(10)	Quality of police and fire protection	
(11)	Tax burden	
(12)	Parking facilities	
(13)	Utility charges	
(14)	Transportation availability and rates	
(15)	Availability of raw materials	
(16)	Estimated quality of site in 10 years	

Selecting a site could be one of the more important decisions facing the businessperson.

### ***Whether to Rent or Purchase Facilities***

Businesspeople often purchase their buildings and benefit from increases in property values. However, most service businesses are not in the real estate speculation business and should not purchase property. Some businesses fail simply because their capital is tied up in buildings when it could be better used in the business itself.

If you purchase your building, when you eventually want to sell your business it might be difficult to find a buyer with enough capital for both the business and the building.

If you put money into a building of your own, that money should bring you an income just as if you had invested it elsewhere. Charge your business rent or interest, maintenance, insurance, depreciation and other expenses of owning a building. If you do not, the business's net profit will not, in fact, be all profit.

If you rent space, be sure that you can stay in that location if the business proves successful. At the same time, you should be free to move after a reasonable length of time if the location does not prove satisfactory. A short-term lease with option to renew is the best way to arrange for both these possibilities.

It is a good idea to have a lawyer or real estate person familiar with lease agreements check your lease. These people may help you tailor a fair contract or make useful suggestions on available options. If you are borrowing money from a lending institution, the loan officer will probably want to examine the lease.

Before signing a lease, check it thoroughly. Notice details such as:

- (1) Can built-in equipment and fixtures be installed and removed?
- (2) Who takes care of plumbing, electrical or air conditioning repairs?
- (3) Who is responsible for maintenance and supplies?
- (4) Who is responsible for alterations?
- (5) Who is responsible for payment of utilities?
- (6) Who is responsible for insurance on the buildings and properties, including liability insurance?
- (7) Can all or any part of the property be sublet?
- (8) What is the liability in case of lease default?
- (9) What are the common area charges?
- (10) Is there potential for expansion?



# The Importance of Business Planning

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## Chapter Two

Lack of planning causes more difficulties than anything else for businesses in North America. Planning is probably the most important management tool available to an owner/manager. A business that merely reacts to events as they occur sometimes does well. But this is often due more to good luck than to good management.

Most successful businesses follow good control and planning techniques. If you are starting a business, careful research into everything that might affect your business will save you money and effort, and pave the way for long-term success.

### *Long-range Planning*

The efficient owner/manager must plan not only for the short run using cash flow, expense budgets and short run sales forecasts but also for the long run. Long-range planning is a vital tool for competing effectively and for avoiding crises.

Doing business takes time. Many business decisions such as building a new facility, expanding a sales force, or putting together a promotional program require adequate lead time. By carefully thinking through these decisions, you will see what actions are required and how much time you need to complete them on schedule.

If money is invested in the business for the long-term, then it is vital to think about the long-term future of the business to determine if the investment is justified. For example, if a printing press is purchased to last ten years, you must consider the position of the business in the longer term to rationalize this investment.

Long-term planning facilitates the efficient use of scarce resources. If financing, facilities, personnel or supplies are limited, then careful planning can assist in scheduling business activities that produce the best results per dollar. Long-range planning can, therefore, improve the total operations of the business; it encourages management to evaluate current activities to improve future operations.

Many managers do not plan adequately because they fear the future. They may say that they have enough problems now without trying to cross other bridges ahead of time. They argue that long-term planning is useless because the future is so uncertain. Nevertheless, they are betting on the future of the business. This means they must consider the odds of success or failure. Problems and opportunities should be identified as early as possible. The real difficulty is facing the future without a plan . . . without a set of alternatives to choose from when problems or opportunities arise.

Long-range planning is not easy. But, with time and effort, plans can be formulated to give direction to your business. Goals can be identified, a business purpose can be defined and the successful operation of the business can be attained.

## ***Short-term Planning***

Short-term planning is more easily tackled than long-term. It is easier to determine a short-term advertising program, marketing plan or financial program. Short-term planning invariably impresses bankers, making it easier to obtain financing. It provides a definite path to take advantage of current opportunities. It can also help you develop as a manager.

One of the more useful tools for developing a short-term plan is the cash flow budget. An example of how to perform a cash flow is given in our handbook *Financing a Small Business*. Doing a cash flow budget on a monthly basis gives you better control.

Unlike manufacturers or retailers, most service businesses don't require large amounts of revolving inventory and are not concerned with the manufacturing process. But for all types of businesses, the problem of planning cash requirements is crucial.

Many businesses have experienced a cash bind. When this happens:

- suppliers may put you on a cash on delivery (COD) basis
- the bank may not extend your credit
- your overall credit rating may drop
- you may not have the wherewithal to bid on future contracts
- creditors may start demanding payment

Too many businesses pass these experiences off as growing pains instead of recognizing the problem of inadequate planning. A cash flow budget simply tracks the following information on a monthly basis:

Cash receipts (not sales but actual cash income)  
    – Less Cash disbursements (the money actually paid out)  
    = Equals Cash from operations  
    + Plus Cash from start of period  
    – Less Other cash payments  
    + Plus Other cash receipts  
    = Equals Cash at end of period.

The concept is simple and it usually pays to include it in regular planning and accounting functions.

# Legal Obligations

## Chapter Three

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Refer to the handbook in this series called *Starting a Small Business*, for information you may need regarding the legal requirements for licenses, permits, taxes, employer responsibilities and types of business organizations.

### ***Business Licenses***

Most service businesses are required to obtain a provincial business license from the Alberta Department of Consumer and Corporate Affairs, Licensing Branch. They have offices in Calgary, Edmonton, Fort McMurray, Lethbridge, Peace River and Red Deer. Some service businesses such as commercial trucking, private detectives, employment agencies, and businesses that serve liquor require special licenses. The *Starting a Small Business* handbook lists most special licenses.

Each municipality, such as the cities of Edmonton, Calgary, Lethbridge, has the authority to issue its own business licenses. Therefore, owner/managers should check with local authorities to determine if local business licenses are required.

A number of permits and licenses are issued for services and products which could affect the safety of Albertans. For example, businesses involved with electrical, gas or plumbing installations must have special licenses and their work in many cases must be inspected either by the Alberta Department of Labour, General Safety Services Division or by the municipality.

### ***Employer's Responsibilities***

Some of the other obligations of the owner/manager of a small service business are:

- All businesses employing more than five people must form an "employer group" and deduct medicare premiums from payrolls. Contact the Alberta Health Care Insurance Commission.
- Almost all service businesses must cover workers' compensation for employees. Contact the Workers' Compensation Board.
- Businesses must ensure, as much as reasonably possible, the health and safety of their employees by preventing occupational injury and illness and providing adequate protection. Contact Alberta Occupational Health and Safety.
- Employers must deduct unemployment insurance premiums, Canada Pension Plan contributions and personal income tax from employees' salaries or wages on behalf of the government. Contact Revenue Canada Taxation.
- Employers must comply with the laws regulating employment such as minimum wage, vacation pay, maternity leave, hours of work and overtime. Contact the Employment Standards Branch of Alberta Labour.
- Employers must pay business income taxes. Contact Revenue Canada Taxation.
- Businesses must register for GST.



(Please refer to our *Starting a Business* handbook for references and further details).

## ***Insurance***

Most businesses that have assets should have insurance. Think seriously about the type and amount of insurance that your business requires and then work with a knowledgeable insurance broker. Ask other business acquaintances for the name of a reliable broker. It pays to obtain competing quotes from insurance agents. Sometimes their rates are negotiable.

Be sure that you feel comfortable about the terms and conditions of the business insurance you are purchasing. You don't want any surprises should something go wrong. Some types of insurance coverage that service businesses might require are:

**Property Insurance** Covers damage to the premises, equipment and inventory. Coverage can be on an all risk basis or for specified perils such as fire, explosion, wind, riot or smoke.

**Liability Insurance** Protects the firm from financial loss due to any claims of bodily injury or property damage sustained by customers or others on the business premises or during business-related activity.

**Crime Coverage** Pays for losses due to vandalism, burglary, robbery and employee dishonesty.

**Fidelity Bonds** Guarantees against loss from embezzlement on specific employees with access to cash receipts or any other company funds.

**Automobile Insurance** Covers both physical damage and liability for company-owned vehicles or cars used for business.

**Business Owner's Life Insurance** Often business partners will purchase life insurance on each other's life in the event that one partner dies, the other partners will have the funds to purchase all of the business. Lenders sometimes require insurance in favour of the lending agency if a term loan is made. Some businesses have insurance on key employees whose death would cause hardship to the business.

**Business Interruption Insurance** Compensates for revenue lost during a temporary halt in business caused by fire, theft or illness.

## ***Bonding***

Another type of insurance for service businesses, particularly those in the construction trades, is performance bonds. Performance bonds are sold by surety companies to companies for particular jobs. The government and other corporations often insist that contractors be bondable to bid on construction projects. These bonds ensure that the contractor has the ability and wherewithal to complete the job satisfactorily. When a company obtains a performance bond it gives the client recourse if something goes wrong. It may be difficult to obtain a performance bond because contractors must demonstrate to the surety company that they can perform the work satisfactorily.

Bid bonds ensure that the bidder is prepared to perform the work according to the terms of the contract if the bid is successful. In addition, payment bonds assure those dealing with the bonded contractor that they will be paid.

The effect of bonding on the construction industry is that contractors compete mostly on price since the customer is more or less assured of an adequate job. The price competition that is generated often leads inexperienced contractors to submit bids that are unrealistically low. One or two such mistakes can lead to bankruptcy.

Bonding companies usually require contractors to have proven experience and the organizational and financial capacity to complete the job. This can be a stumbling block for new firms. On the other hand, financial institutes are often more lenient towards bonded contractors when lending money.

Security is also required to guarantee employees' entitlements in the lumbering and coal mining industries under the Industrial Wages Security Act. Contact:

**Employment Standards Branch**

Room 801  
10808 - 99 Avenue  
Edmonton, Alberta T5K 0G5  
Phone: 427-8541

# Marketing

## Chapter Four

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Good marketing techniques are the life blood of your enterprise, and formal marketing planning is vital to short-term and long-term success. It provides a detailed comprehensive plan and identifies well in advance, exactly how sales increases and gross profit increases are to be achieved. For more details on developing a marketing strategy, please refer to our *Marketing for a Small Business* booklet.

The first question to ask is “What Business am I in?” At first this may seem a needless question, but many businesses have failed, wasting time, money and effort because they were confused about the type of business they were operating. Is it a barber shop or a hair styling salon? Also many businesses could probably be more profitable if they concentrated their efforts on either sales or repairs, but not both.

Developing a good understanding of your service and business will be of benefit when devising a marketing and business plan. Ask questions such as:

- What is it that you are attempting to do the same as, differently, or better than your competition?
- Why should a customer use your service?
- When would they use it?
- Where would they use it?
- In what areas do you see your service expanding?
- What do you do best?
- What service do people ask for that you do not offer?
- What supplies, parts and materials must you keep on hand?

Write down your answers; it will help to formalize your thinking.

### *Finding the Sales Potential*

After clearly identifying your service, you should determine your estimated sales volume. Generally, in a service business, sales potential will usually depend upon the area that you service. The type of customers your business services is also important. Are they industrial, institutional, commercial consumers, or all of these? Identify as clearly as possible just who your potential customers are and where they are located. Statistics Canada and the Alberta Bureau of Statistics have data on the dollars spent by area within Alberta for certain types of services.

There are many sources to check when trying to estimate total sales potential. For example, a person starting in the carpet cleaning business in Calgary went through the following steps to determine his sales potential. He first defined his sales area in a certain part of Calgary. He then carefully determined how many single family homes there were in his area using the post office and city maps. He then asked real estate agents the approximate floor footage in each house, and what percentage of that was carpeted. He



also checked how many commercial office buildings there were in his area, and the approximate carpeted square footage they contained. He went to the suppliers of rug cleaning chemicals and other sources to determine how often carpets should be cleaned. He was soon able to determine his market and its sales potential.

After defining your market and where it is located, you should make predictions about the volume, in dollar terms, that it can support. Estimate the market share of each of your competitors. Although this may seem a difficult task, the more research you do into this matter, the better you will know your market. Find out such things as how much your competitors charge. Which firms will be your most troublesome competition? Why? Does the area appear to be saturated with competition? This could be a good indication that the market is buoyant and that the area can support a good business. On the other hand, it might prove that one more business in the field could produce failure.

### *Attracting Customers*

There are several factors involved in attracting customers and maintaining their patronage. Pricing will be important as well as the amount and quality of the service offered. What image will the business portray, and how much advertising is required?

When developing an image, most service businesses build customer confidence by offering a quality service at reasonable prices. If you need repeat business, customers must be satisfied with what you offer. They must feel confident that your operation exemplifies honesty and integrity. If you are selling your service on price and quality, then you should continually remind your customers of this. A code of ethics could be established, printed and framed over your service counter.

Develop a policy to guarantee your work. If you charge more for your work than the initial estimate, be sure to notify the customer instead of surprising them when they come to collect the item. Similarly, respect your customers' time. If the project is delayed, tell the customer at the earliest opportunity to avoid misunderstandings.

Too many smaller service businessespeople regard image as a nebulous idea, yet these same owner/managers will accept the concept of reputation. Actually, there is little difference except that an image is deliberately designed, developed and established.

To build a good image, set high premiums on such matters as courtesy. Conduct campaigns encouraging employees to be considerate of others. If you operate from a shop where customers visit, have a clean, interesting waiting room. The building facade should be fresh and distinctive. A colourful, eye-catching exterior sign helps provide instant identification and continuous advertising. The sign should be large enough to be easily read from a distance, yet proportionate to the building.

## Advertising

Many small businesspeople question the value of advertising. It can build sales volume at a lower cost per sale than any other method. Besides, you have to spend money to make money. The astute businessperson reserves a permanent place in the budget for advertising. With limited funds available, every advertising dollar must count.

To achieve the best value from advertising, the owner/manager should plan ahead by developing an advertising budget. The first question is how much should be spent on advertising. Most businesspeople use a fraction of their total sales as the advertising budget. For example, a local drycleaning business may spend 2.5% of sales on advertising. There are other factors that need to be considered in deciding how much to spend:

- The newer the business, the more advertising is required to make it known.
- If a shop is in a poor location, advertising is required to attract people to go out of their way to stop there.
- If a shop is selling a highly promotional service, it needs to spend more on advertising.
- In order for a business to keep its share of the market, expenditures must bear some relationship to what competitors are spending. Aggressive competition usually requires aggressive advertising.

## Advertising Planning

It is good practice to prepare an advertising budget by the month and for specific media.

	Gross Sales Last Year	Advertising Last Year (3% of Gross)	Estimated Sales This Year (5% Inc.)	Advertising This Year (3% of Gross)
Jan.	\$ 6,000	\$180	\$ 6,300	\$189
Feb.	6,500	195	6,825	205
Nov.	12,000	360	12,600	378
Dec.	18,000	540	18,900	567

	Jan.	Feb.	Nov.	Dec.
Total Budget	\$189	\$205	\$378	\$567
Handbills	89	—	100	100
Newspaper	100	105	75	300
Radio	—	50	178	50
T. V.	—	—	—	—
Community Affairs	—	25	—	50
Other Contingency	—	25	25	67

The above exercise helps the owner/manager plan promotions ahead, to be prepared to set goals and to act to attain them.

## ***Media***

When selecting the media for advertisements, identify your market audience and then choose the best medium to attract their attention. Television reaches a large audience with good results but it is expensive. Newspapers are the number one medium for small businesses, and usually cover the business market area adequately. The cost of newspaper lineage is relatively low and the retailer can personalize the advertising.

Some companies use shoppers, which are special local newspapers that carry only advertising for local businesses. Shoppers are usually the least expensive newspaper buys and may have a large circulation aimed directly at your target market. Advertising in the telephone directory is another very good method. Direct mail can also be a successful medium. If radio is to be used, then it is best used frequently. Be careful to determine prime listening time of your target market.

Another effective method of advertising is to display a sign at your place of business which will attract local traffic. Other media you can use includes transit and outdoor billboards, giveaways (pens, calendars), sponsorship of local contests, etc. The most effective advertising, however, is word of mouth from satisfied customers.

## ***Trade Associations***

Many service businesses have trade associations organized by owner/managers within the trade to promote the industry, maintain standards, provide self-help and to share services with other members. Businesspeople gain by associating with each other, especially if they are in the same trade.

You may benefit from becoming active in trade associations by providing input into pricing recommendations for member firms and into wage recommendations for trades people. You may learn how to overcome problems you are facing, share business experience, learn of credit risks, partake in setting trade standards, and act against those who could possibly harm your industry's image.



# Pricing

## Chapter Five

The goal in setting prices should be to maximize profits. To set prices properly there are four main elements to consider. They are the cost of materials and supplies, the cost of labour and operating expenses, planned profit and competition.

### Pricing Decisions

For service enterprises there are several possible rules of thumb for setting prices. They vary according to different businesses. For example, a building maintenance service business might charge 1.5 times production costs. Production costs could be figured out as follows:

<u>Janitors</u>	<u>Monthly Hours</u>	<u>Wage rate</u>	<u>Payroll</u>
4	640	\$5/hr	\$3,200
<u>Supervisor</u>			
1	160	\$8/hr	<u>1,280</u>
			\$4,480
Vacation and sick leave and other benefits (10%)			448
Materials (10%)			<u>448</u>
Total Production cost			\$5,376
Total Billings $\$5,376 \times 1.5 =$			\$8,064

The difference between the total billings and production costs is issued to pay overhead expenses and whatever remains after that is the owner's profit. In time, the owner/manager should know what profit percentage to expect. This also helps in establishing a price.

Some types of service businesses charge according to rules such as twice labour costs plus material costs, or twice material costs plus labour, depending upon which is the highest cost factor - labour or materials.

The best method to correctly price a service is to first determine costs, both direct and indirect. Direct costs include labour and materials. Indirect costs include the costs of maintaining trucks, office or warehouse space, secretarial or sales help, license fees, etc. Most owners have little trouble in defining the amount of direct costs associated with a job, but find it more difficult to assign overhead or indirect costs to particular jobs.

Probably the easiest method to assign overhead is to use a percentage based upon previous profit and loss statements. In the example below, the owner/manager figures out the materials and labour associated with a particular job and then adds 40% of the final price to compensate for overhead and 10% for planned profit.

Sales		\$200,000
Cost of Sales (Materials)	\$60,000 (30%)	
Labour	40,000 (20%)	
All Other Expenses (Overhead)	80,000 (40%)	<u>\$180,000</u>
Profit		\$ 20,000(10%)

## ***Price/Volume Relationship***

Often the price that will bring in the biggest number of sales is not necessarily the price which will maximize profits. Look at the price/volume relationship in the example below:

Selling Price	\$6	\$5	\$4.50
Sales in units	5,000	15,000	20,000
Dollar Sales	\$30,000	\$75,000	\$90,000
Direct Costs (\$4 per unit)	\$20,000	\$60,000	\$80,000
Profit	\$10,000	\$15,000	\$10,000

In this situation, selling 5,000 units at \$6 per unit would generate the same profit as selling 20,000 units at \$4.50 per unit. However, if the price decrease of \$6 to \$5 per unit meant an increase of volume to 15,000 units, profit could be expected to increase from \$10,000 to \$15,000. Be careful of dropping prices in hope of being compensated by increased volume. The solution is to determine the best combination of selling price and unit volume to provide the greatest contribution toward overhead and profit.

## ***Estimating***

For businesses like the construction trades, good estimating for projects quotes often means the survival of the company. Many of the more successful contractors build the job on paper before they submit a bid. They break the job down into detailed costs of material and labour by work units. They also figure out the indirect costs of each job, including trucks, office maintenance, interest charges, lawyer's fees, insurance and so on. Therefore, each estimate form that contractors use should include headings such as activity, material, labour, subcontractors, overhead and profit.

In addition, there should be a column for the actual cost of the project to be compared with the estimated cost as the project is completed. Not only will it show if the estimates are on target as the work progresses but will provide a valuable reference to evaluate the profitability of a job after it is completed. It will show if the initial estimate was high or low, and point to needed adjustments on future bids.

When pricing keep in mind that costs have to be controlled to ensure the proper markup to obtain a satisfactory profit. For example, in the restaurant business, the largest indirect cost will be the cost of food (which should not be above 40% of sales in a well run operation).

Many restaurants keep menu logs where each item on the menu is broken down by cost per service.

For a steak dinner, the costs and portions would be shown for the vegetables, potatoes, salad, soup, bread, butter, beverage, serviette (paper), meat and dessert. The total food cost would then be used to calculate the selling price on the menu. A 150% markup on the cost of food is about average. Menu prices should be reviewed regularly to keep up with rising food costs.

When it comes to businesses like hotels and garages, several services are often provided by the same business. For example, a motel could have room rentals, a restaurant, and a lounge under one roof. A service station sells oil and gas, sells parts, repairs cars, and may sell or lease automobiles.

The challenge here is to ensure that the prices charged for the various services cover the direct costs associated with each one, and contribute to the general overhead and profit.

# Personnel

## Chapter Six

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Small firms generally enjoy a good reputation for employer/employee relationships. Nevertheless, obtaining and keeping employees is one of the more crucial elements of any business. Good employees can be your firm's greatest asset. In a small service business, sales are directly related to how well customers get along with employees, and how employees anticipate and serve customers' needs. Profits are directly related to the efficiency and integrity of employees. Employee attitudes and abilities can make or break a business. Employees can be the biggest single business expense and therefore, deserve attention.

In many cases, the small businessperson works so closely with all the staff that personnel management is well in hand. In some cases this is true, and the manager may be reluctant to issue statements of written personnel policy to interfere with a business's operations. However, for most small business, both management and employees profit by planned personnel management with policies to cover all regular events such as layoffs, termination, sick leave, grievance situations, discipline, holidays, vacations and working conditions. Also employees have the right to know what is expected of them, and how they are to be paid.

### *Recruiting*

The owner/manager should first carefully consider the need for a new employee. Sometimes there is another way to complete a job that is just as efficient and economical as adding someone to a payroll. To justify hiring employees, the businessperson should determine if the return on the investment of paying wages and the time taken to administer and train employees and to properly equip them is realized through increased revenue and profit.

Recruiting potential employees can be a time-consuming task; but time well spent on recruiting can prevent difficulties in the future. Sources of new manpower include people recommended by your present employees, chance applicants, trade and industrial associations, schools and teachers, commercial employment agencies, Canada Manpower, customers, suppliers and newspaper advertising.

Whenever possible, tell your present employees about vacancies first. Ask them to tell their friends and relatives. A good, steady worker often has friends of similar character and ability. Before going outside to fill a supervisory post, make sure that you do not overlook any present employee who may be ready for advancement.

Advertising the position in a newspaper is the most fruitful and commonly used method of recruiting. Display ads are usually used only for specialized jobs, whereas classified help wanted advertising can be used for recruiting all types of employees. The open ad, giving the name and address of your company usually invites better response than a blind ad just giving a box number for responses. Bear in mind that an open advertisement obliges you to acknowledge every application.



## ***Employee Relations***

There are a few measures that contribute almost immediately to good employee relations. First, when employees come on staff, give them time and show them what is expected. Research has shown that when employees are treated with respect, honesty and friendliness from the start, their long-term commitment to a job increases.

Job specifications, including written descriptions of each job, should be used in selecting personnel, training them, preparing them for promotion, and keeping their salaries and wages balanced with the degree of responsibility and skill required of them. Job specifications also provide employees with an outline of what is expected of them. An example of a job description could be:

### **Service Repairman (Vacuum Cleaners)**

Duties:	Calls on customers, repairs vacuum cleaners, completes work orders, collections, keeps repair equipment in order.
Responsible to:	Service Manager
Requirements:	Applicants must be bondable, knowledgeable about fixing vacuum cleaners, have a driver's license.
Personal:	Must be able to work alone, relate well with customers, be punctual and reliable.

Each employee should take orders from and be under the direct supervision of only one person to avoid the conflicts of divided responsibility. Setting down on paper the functions and lines of authority of your employees will help employees to understand their responsibilities and the relationship of their work to others in the business.

## ***Wages and Salaries***

For most types of employees in service enterprises, there are essentially two choices in the method of compensation. Either you pay on the basis of time - by the hour, day, week or month - or you pay on the basis of output - by the piece, or time spent completing given items or work units. The former is the prevailing method of wage payment in smaller businesses, mainly because it is easier to calculate and control. When paying a piece rate, sometimes referred to as incentive wages, you pay for different levels of performance. It is usually used in shop work rather than to office operations.

Whichever method you select, and it could be a combination of both methods, it will be helpful to draw up a careful job description. Job descriptions will help to set up general job classifications so that jobs of a similar nature and content will be paid roughly the same amount. The aim of most wage and salary systems is to achieve internal consistency where the same jobs are paid at the same rate within the company.

Generally speaking, incentive wages are practical and effective when:

- The units of output are measurable and readily distinguishable.
- A clear relationship exists between output and the worker's effort.
- The job is standardized, the work flow and raw materials are regular, and breakdowns are few.
- Quality is less important than quantity.
- Supervisors do not have sufficient time to devote much attention to individual performance.
- The labour cost per unit is known.

Workers may fear most the incentive wage system because when they acquire greater skill and speed in turning out a particular piece, they feel the rate will be cut, forcing them to work harder to earn the same amount of money. You should, therefore, assure your workers that rates will not be cut once established. If you intend to change a 100% wage system over to an incentive system be sure to include your employees when planning the change. Otherwise, this type of manoeuvre can upset your workers immeasurably.

### *Profit Sharing*

If you decide to start a profit sharing plan in your organization, you should publicize it amongst your employees to promote good employee relations. In publicizing the plan bear in mind the following points:

- Mention that the plan is experimental so that you can discontinue it if it does not achieve the desired results.
- Do not give the impression that your profits are excessive.
- Have your accountant determine just what the profits have been and, when feasible, advertise the fact adequately. This will give employees confidence and stave off criticism that you are juggling the figures to suit yourself.

Profit sharing plans usually provide for an annuity for all employees who have been with the company for a specified time, and are based on profits earned. Payments, on the other hand, are not necessarily made annually, although they may be, and can be determined by the group performance. In some instances, individual performance is rewarded with such payments.

### *Other Aspects of Personnel Management*

Factors to consider when setting salary levels include: the minimum wage, union scales, salaries for similar jobs in the area, the applicant's previous salary and experience, and the applicant's potential to add to company profits.

Employees always look for security in their jobs. Be sure to encourage and be responsible to your staff. Instituting a pension dental or medical plan for employees will help them feel more secure. A small company is no longer a barrier to the introduction of such plans through a reputable insurance agency. Building even a small permanent staff today demands inclusion of such employee benefits.

The role of employer calls for authority, imagination, tact and patience. The employer should approach all problems directly and openly. When personality conflicts arise between employees, the employer must deal with the situation promptly and in a non-partisan manner. An employer must recognize that people are motivated differently. Some employees thrive on additional responsibilities; others may fall apart. Some employees need constant encouragement and praise for work well done; others don't.

If being a personnel manager provides the owner/manager greater challenges, it also provides some of the most gratifying rewards. Helping employees develop their full potential has its own satisfactions, as well as making a solid contribution to the business.

The handbook in this series entitled *Starting a Small Business* outlines in detail all the employer's legal responsibilities towards employees. This includes payroll deductions, minimum wages, union regulations, etc. The section on insurance discusses health care insurance regulations and workers' compensation.

Alberta Economic Development and Tourism, Small Business and Industry Division has prepared another handbook in this series entitled *Financing a Small Business*. It tells you how to arrange proper financing for a business in Alberta and is free on request. Nevertheless, since financing is such an important aspect of a service business, it would be appropriate to discuss it briefly here.

Arranging financing for a new service business can be difficult, especially at the outset. Capital equipment, real estate and other requirements are expensive in our society, and one has to plan financing carefully. Banks and other commercial lending institutions are usually hesitant about making loans to new businesses with no track record.

Some service businesses require considerable amounts of inventory, and financing for inventory can be especially difficult. Lending institutions are often reluctant to take inventory as collateral because it may be difficult to turn it back into cash should they foreclose. In some instances, lending institutions will finance inventory up to 65% of its value. When inventory advances are made, there is usually a ready market for the goods in question, (which should not be perishable or subject to early obsolescence). However, in most cases of inventory financing, good rapport has been established over a period of time between the lender and borrower.

When starting a service business, there are financing rules that should be followed closely. A new business usually should minimize its fixed capital outlays to the greatest extent possible. For example, you should rent real estate rather than buy it, and lease equipment instead of purchasing it. Although this policy may appear more expensive over the long run, it means that the business will have more money available for immediate expenses. Your own money, used for working capital, can normally be recaptured quickly by inventory turnover, but money sunk in fixed capital is harder to retrieve. Therefore, consider financing all fixed expenses such as leasehold improvements, cash registers, equipment and motor vehicles, leaving your cash available for current operating expenses and inventory purchases.

When first starting, many new businesses underestimate the amount of money that will be required to operate. Plan your requirements for working capital carefully and be prepared for difficulties. Get a working line of credit from your financial institute at the outset.

A line of credit provided by financial institutions to support working capital required by the business. The financial institution will negotiate to lend up to a certain amount of money providing terms and conditions are met. The financial institution can cancel the line at any time it considers necessary (hence the term "demand loan"). However, it will not generally cancel without cause. A line of credit is extremely useful to a business. The loan will go up and down as the business needs the money, and interest is paid only on the amount outstanding. Generally, you should avoid continuous operation at the upper end of the credit line.



Plan your financing requirements well ahead. It is important to approach your financial institution early. A lender does not want to be approached at the last minute with a crisis situation such as a payroll you are unable to meet. Also be prepared when you go for a loan. Present the financial institution with a written plan describing your intentions and business prospects. Prepare a cash flow or budget as described in the *Financing a Small Business* handbook which demonstrates your business's ability to service debt.

Show the financial institution that you have the business well under control. Keep it informed of any significant developments in your business. Provide financial data regularly. Then when a problem occurs, reasonable solutions can be found if are honest and present a plan to tackle to tackle the problem. It is to your advantage to develop a good relationship with your financial institution.

There are many sources of financing for a business in Alberta. Ask business acquaintances or local merchants about the financial institution they use. It is important to deal with a financial institution that is interested in your business and will sympathize with your aspirations. Building your business on a sound financial base is one of your most important jobs.

### ***Break Even Analysis***

Although a cash flow is probably the most important planning device available to the owner/manager, a break even analysis can be an interesting exercise to determine the profit potential. It points out the necessity of controlling expenses. A break even chart is simply a visual representation of sales revenues and expenses showing their relationship to volume.

Some assumptions are normally made when performing a break even analysis:

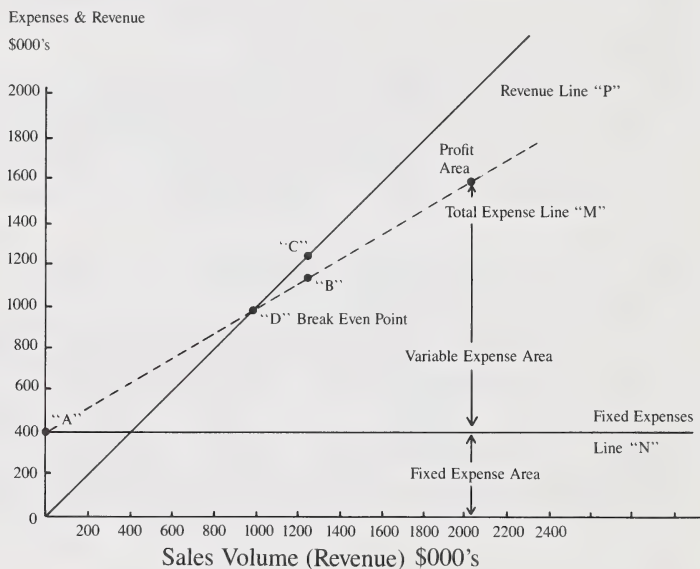
- Selling Prices do not change.
- Total fixed expenses remain the same. Fixed expenses are those costs that cannot change over the short run. For example: rent, equipment leases, loan repayment, etc.
- Variable expenses increase and decrease in direct proportion to sales. Variable expenses are those costs that can be changed in the short run. For example: labour, material purchases, selling expenses, etc.

An example of a break even analysis is shown below:

### The Small Service Company Condensed Income Statement

Net Sales (60,000 units F \$20 per unit)		\$1,200,000
Less Costs and Expenses	<u>Variable</u>	<u>Fixed</u>
Direct material	\$195,000	
Direct labour	215,000	
Operational expenses	100,000	\$200,000
Selling expenses	150,000	50,000
General & administration expenses	<u>60,000</u>	<u>150,000</u>
Total	\$720,000 +	\$400,000 = \$1,120,000
Net profit before taxes		<u>\$ 80,000</u>

### Break Even Chart — The Small Service Company



#### Step 1:

On the horizontal axis mark off a scale that represents sales volume. On the vertical axis mark off a scale representing revenue and expense items. Draw fixed expense line "N" which represents fixed expenses of \$400,000 that does not change over various level of sales.

#### Step 2:

Plot point "B" as determined by the total of fixed and variable expenses on the vertical axis (\$1,120,000) and total sales volume on the horizontal axis (\$1,200,000). Draw line "M" starting at "A" and extending through "B". Line "M" represents the total expense line. Expenses both variable and fixed at any level of sales can be determined from it. Read upward from sales volume to the total expense line "M", and then over to the vertical axis where the dollar amount of expenses can be found.

### Step 3:

Plot point "C" which outlines the total sales volume and total revenue or \$1,200,000 on both scales. Draw revenue line "P" starting at "0" through point "C". The break even point is at point "D" where the total expense line "M" intersects revenue line "P". The break even point is where sales are \$1,000,000 covering total expenses of \$1,000,000.

The advantage of a break even chart is that you can readily see what level of sales are required to obtain profits. According to the example provided, if sales volume totalled only \$800,000, total expenses would be greater than total revenue, thereby indicating a loss. However, if sales volume amounted to \$1,800,000, total revenue would be much greater than total expenses, resulting in a large profit.

## *Ratio Analysis*

When discussing financing, there are a number of ratios that lenders like to use to determine the relative health of a business. Ratio analysis is also used as a management tool for better control of the business. The basic data for ratio analysis comes from the firm's balance sheet and revenue and expense statement (income statement). This data should be readily available in any business. The purpose is to detect favourable or unfavourable trends in the performance. It will help a busy owner/manager identify trouble spots accurately and quickly. The ratio for your business should be compared with the ratios for similar businesses. This type of information is available from sources such as industry associations and business libraries, including Alberta Economic Development and Tourism.

Some of the key business ratios are:

- **Current Assets to Current Liabilities:** This is an important test of solvency. It determines whether the cash on hand, or those short-term assets, such as accounts receivable and inventory (which can be quickly converted into cash) are enough to meet all debts falling due within a year. A high current ratio is looked upon favourably.
- **Debt to Equity:** This ratio compares what is owed to what is owned, giving a picture of the financial stability. Total debt is divided by tangible net worth. Tangible net worth is the true worth of the business (assets minus liabilities) minus any intangible items in the assets (such as goodwill or incorporation costs).
- **Net Sales to Tangible Net Worth:** This ratio shows how actively invested capital is put to work by indicating its turnover during a period. Net sales are divided by tangible worth to arrive at the number of times the invested capital is turned over in a period. Both overworked and underworked equity is considered unhealthy.
- **Profits to Equity:** This is the measure of return on investment and is considered one of the best criteria for profitability. Net profits (after taxes) are divided by tangible net worth to arrive at a percentage figure. If this return on capital is too low, the capital involved might be better used elsewhere.

- Net Sales to Inventory: This gives the average turnover of inventory and is useful for comparing one company's performance with another, or with the industry's. Net sales are divided by the average inventory over a period of time. The turnover figure derived is only an average and should be interpreted carefully as it does provide a good turnover control for different items within the inventory.
- Net Profit to Sales: This ratio measures the return on sales. Profits after taxes are divided by total sales. A high rate of return on net sales is generally viewed favourably. However, a low rate of return on sales in conjunction with rapid turnover and a large sales volume may also result in satisfactory earnings.



# Business Records

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The primary objective of good business records is to provide information that management can use to direct business operations. Good records are a very important tool for management decisions. A record system should tell a manager how efficient the business is, and point the way to cost reductions and other plans to increase profits. For more in depth information on this topic, please refer to our *Bookkeeping for a Small Business* guide.

A useful and effective system must be easy to understand, simple, flexible and efficient to operate. The system should be designed to provide useful information to management directly and economically. There is no advantage to a system that accumulates information just for the sake of accumulating data. Flexibility must be built into the system allowing the manager of a small service business to change and adjust to the needs of customers.

Establish a relationship with an outside accountant or bookkeeper to help you set up your books. An accountant is usually called upon to prepare the business's annual financial statements and is in a good position to offer advice. However, the owner/manager should know how to take care of the records and to find information in them to improve the business.

For service businesses, records should consist of at least the following basic elements:

- A record of all monetary transactions, that is, all money coming in and all money going out
- A record of petty cash and daily bank deposits
- A record of each credit customer's account
- A record of accounts receivable
- A record of expenses and accounts payable
- A record of equipment and depreciation
- A record of inventory
- A record of employment for every employee.

## ***Bookkeeping***

Bookkeeping is defined as the recording of business transactions in a general ledger and journals.

Entering this information daily is not complicated or time consuming. The time spent is well worthwhile because it provides good control of sales, cash receipts/disbursements, accounts receivable/payable and expenses.

To help you develop a simple and efficient bookkeeping system, Alberta Economic Development and Tourism, Small Business and Industry Division, provides another handbook *Bookkeeping for a Small Business*. A business that sells different types of merchandise with varying gross margins and rates of turnover may find it more informative and efficient to

## *Departmentalizing*

organize records by department. For example, a fast food business could departmentalize by dividing menu items into different departments. Money coming in and going out may be entered in a departmental purchases and sales record as the basis of monthly departmental operating statements. This method will show which departments are the most profitable, as well as giving better control over purchasing, inventory, etc.

## *Inventory Management*

Although service businesses usually have minimum inventories, stock control and inventory turnover is still important for profitability. There are several methods of recording inventory, but for the purposes of this handbook, we will only discuss the physical inventory check and the gross profit method.

The physical inventory is the only way to accurately determine merchandise on hand. To perform a physical inventory, simply list the quantity and value-at cost and at retail price of every item on the shelves and in storage. Goods received after the close-off date should be marked so they will not be included in the count.

Between physical counts, inventory can be estimated by the gross margin method. The usual gross margin percentage is used to figure a cost of goods amount. This figure is subtracted from the goods available for sale to arrive at an estimate of current inventory at the end of the period.

Let's say the sales for one month totalled \$15,000. Inventory at the beginning of the month was \$9,000 (cost), and purchases during the month amounted to \$11,000 (cost). Assume that the usual gross margin is 35% of sales. To estimate the month's ending inventory, use the following formula:

Beginning Inventory	\$ 9,000	
Merchandise Purchased	11,000	
Merchandise available for sale		\$20,000
Estimated Gross Margin	35%	
Cost of Sales (100-35)	65%	
Sales for the month	\$15,000	
Cost of goods sold (65% of \$15,000)		-9,750
Ending Inventory		<u>\$10,250</u>

When margin percentages vary between departments within a business, each department's inventory should be calculated separately.

This method can be used to provide monthly income statements.

Many service businesses in Alberta have fairly sophisticated cash registers that can assist in inventory control. The merchandise is divided into workable, coded sections. When a sale is rung up on the register, the clerk also punches in other information including the merchandise code, cash or charge, and markdowns. When stock purchases are made, they are also entered on the register, according to the code and amount of inventory.

Some cash registers are then able to give back - by classification or department - beginning and ending inventory figures and turnover for that time period.

One monthly report will tell the owner/manager little. However, over a long period, a series of reports on inventory control can give the owner/manager a clear picture of where she/he is making money, and provide accurate information to help make better buying and selling decisions. For non-retail items, a good rule for service businesses is to maintain the lowest inventory levels possible. Inventories consume cash and the more cash used for inventory items the less working capital there is for the business.

### ***Accounts Receivable***

Granting credit can involve considerable costs. Not only must you deal with the cost of bad debts, but there are expenses in setting up a credit system including bookkeeping, billing, credit investigation and collections. Many Alberta businesses find it easier and more economical to accept bank credit cards, such as VISA or MasterCard. Billing and collection activities are handled by the financial institution in return for a discount and cash is received for sales as soon as the sales draft is deposited.

Companies that handle their own credit accounts, should set a firm policy which outlines who is allowed to obtain credit, what the terms are, and how to follow up past-due accounts. Remember that slow-paying accounts tie up working capital. Also, people that owe your company money may shop elsewhere rather than go to your store and face a possible demand for payment on past purchases. Therefore, granting credit may prevent or diminish further sales to the slow-paying customer and may lead to losses.

No matter how careful you are in extending credit, sooner or later losses will occur. If your credit granting policy is too strict, it may lead to a loss of potential sales. Bad debt ratios are calculated in the following manner:

$$\frac{\text{Bad Debts}}{\text{Total Credit Sales}} = \text{Bad Debt Percentage}$$

This ratio should not exceed 2%, and slow accounts need to be immediately dealt with when overdue. The older a receivable becomes, the more difficult it is to collect. Eventually, after a certain point, it will have to be written off as uncollectible.

A system of aging accounts receivable should be devised that lists each account and its position. The aging process should be undertaken at least three or four times a year, and more often for a business with a large number of accounts. An example of a written accounts receivable aging system is given below:

Current	Total	Current	30-60 Days	60-90 Days	3-6 Mos.	6-12 Mos.	Over 1 Year
Boisvert Services Ltd.	600		600				
Cadence Chemicals	350				350		
Davidson Welding	200			100	100		
Dziabe Die & Tool	1,000	800	200				
<hr/>							
Rutherford Construction	500	500					
Slater Drilling Ltd.	900	700	100	50	50		
T & H Products	810	810					
<hr/>							
Total	4,360	2,810	900	150	500		
Percent	100%	64.4%	20.7%	3.4%	11.5%		

Note: The names and amounts shown above are not intended to represent any existing firm.



# Management Improvement Areas

## Chapter Nine

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One measure of good management is the ability to identify problems and to take the required action to correct them. In this section, several common management pitfalls will be discussed.

Large companies can absorb costly mistakes which might prove fatal for the small or medium sized enterprise. The margin for error in a small business is slim, and in the final analysis, more than 90% of business failures are due to inexperienced management. Errors most often committed by managers include failure to plan, poor record keeping, reckless spending, misuse of time, poor marketing programs, poor personnel handling, and downgrading the need for expertise.

### *Planning*

Lack of planning is one of the greatest problems for small business. One prominent management consultant states, "No business can hope to succeed unless it has meaningful plans for the company." Often businesses are overburdened with yesterday's crisis, and without proper planning, the ability to take advantage of opportunities that arise or prevent possible difficulties is limited.

Plans should be committed to paper and should progress through five steps:

- Specific goals and problems are outlined.
- Data is researched.
- Possible alternatives for action are determined.
- Course of action and timetable is selected.
- Plans are reviewed regularly and revised.

Planning experts suggest that the owner/manager of a small business draft a two-year plan, and then review it every three to six months. As the business grows, the participation of key employees should be sought to help develop company plans. People support what they help to create.

All managers should do organizational planning. A company's organization should operate smoothly. Signs of poor organization include confused or hectic conditions in any department, excessive scrap or rework, desks piled high with backlogged paperwork, chronic late shipments, habitual delays for such things as material, parts and supervision. Another sign is overburdened executives or foremen.

The first step to overcome poor organization is to create short job descriptions for every position in the company. Job descriptions should include a title and a full explanation of duties, responsibilities, objectives, authority and accountability. Using job descriptions helps management detect areas where there is duplication or too much idle time for some workers and too much work for others.

Small businesses should have a management succession plan. The loss of the owner/manager can paralyse the company. The result of years of hard work can be erased overnight when succession alternatives have not been established.

To avoid a succession crisis, the top person must actively plan for their retirement or any unexpected and potentially disastrous occurrence. Initially, they must evaluate which employees would best fill their shoes.

The complex tax and legal aspects of estate planning almost demand that the owner/manager obtain professional legal and accounting assistance. At the very least, the owner/manager should have a plan in writing that will cover the following points:

- A will covering disposition of the business.
- A buy/sell agreement, or carefully drawn outline for disposal or continuation of the business.
- A method of funding so that the disposition of the business can be successfully carried out as requested.

## ***Record Keeping***

Poor financial records cause more havoc than any other management mistake. Without proper records, there is no control of the business. Most successful businesses have well informed managers with access to complete accounting systems. These managers make full use of financial information regarding the company. The managers who say, "I know this business like the back of my hand, so who needs records" are fooling themselves. Unless the business is extremely small or unusually simple, the owner/manager cannot possibly keep everything in their head. A knowledgeable accountant can help an owner/manager set up a good accounting system. However, the businessperson must be able to interpret and understand the financial information. Please see Chapter 8 of this book.

## ***Marketing Programs***

One of the most important aspects of any business is to get and keep customers. Many independent businessmen see poor sales as an isolated problem rather than a symptom of a poorly developed and coordinated marketing effort. To combat sales difficulties, an objective analysis must be made of products and services, marketing effort, competitive situation, and efforts to determine the real needs and wants of the buyers. Some managers claim that their products are so good they sell themselves. This attitude usually results from a preoccupation with products rather than customers.

Another problem associated with poor marketing practices is inadequate pricing. In some instances, service fees are set too low to recover cost and still furnish a reasonable profit. If the service does not sell at a price high enough to make a profit and still remain competitive, maybe it should be eliminated.

Often a service business fails because it is not in the right location. The location of a business should be analyzed periodically to ensure time and changing conditions have not altered the desirability of a once profitable site.

When discussing marketing, one must realize that market research is necessary. Market research is objective fact-finding and problem analysis. It identifies customers, trading areas and consumer needs. The information derived from market research can be used to plot a firm's marketing strategy. The simple adage, "Look before you leap" is the theory behind market research. Please see Chapter 4 in this book.

### ***Personnel***

To build a loyal and efficient staff, a manager must devote considerable time and effort to training, hiring and managing employees. The cost of having unhappy or incompetent workers is immeasurable and can destroy a business. An employer must be skillful in human relations. The time and effort put into managing personnel is usually well worth it. Not only employees find it rewarding managers also find it gratifying to see people develop. With good personnel techniques, the likelihood of success increases. Please see Chapter 6 of this book.

### ***The Need for Expertise***

Many service businesses are started by people who know a certain craft. For example, the auto mechanic who starts a service station, the plumber who opens a own plumbing business and the electrician who starts an electrical contracting firm. Typically, tradespeople who run businesses spend the majority of their time at their craft, instead of taking care of their business.

If an owner/manager cannot adequately control the business or perform the other functions required in a good business, such as marketing, financing, personnel management, etc. the business may not be successful. Therefore, the new owner/manager should take the time and effort to plan and run the company with the business in mind.

### ***Time Management***

Often small businesspeople have too much to do, and too little time in which to do it. Most entrepreneurs work 50 - 70 hours a week, but much of this time may be wasted. Too much of the owner/manager's time is often spent on trivial matters while vital jobs are left undone. A small businessperson must learn to control the job rather than letting it control him/her. The objective is to work "smarter not harder".

Efficient budgeting of work periods is a matter of self-discipline. Effective managers put urgent jobs before less pressing jobs. They rank duties according to importance deciding, for instance, which is more urgent—planning a new advertising campaign or hiring a new assistant. The best method to tackle routine duties is to schedule weekly or monthly activities.

Many managers fail to delegate authority. Symptoms of faulty delegation are obvious. A top person can get too busy to be effective and make costly mistakes. Also if employees do not receive responsibilities delegated. No one is capable of taking over in emergencies when the boss is ill or absent. The attitude "I can do it faster and better myself" does not allow the company to improve its position. To increase employees confidence, time and effort can be saved by training individuals properly before they begin their jobs.

Often when managers review their schedule of activities in a day, they will find that a considerable amount of time has been spent on relatively easy chores that could have been delegated to others.

Problems arising from inexperience are not limited to new enterprises. Experienced businesspeople often discover, after several years, that they are out of touch with the increasing complexity of the expanding venture. To stay in business, they need to learn new skills. Often the proprietor must acquire executive talent to assist in managing the company. When choosing an executive to help run the business, the manager should hire one whose strengths lie in areas where the owner is weak. A new executive could lighten the boss's workload and provide management insurance should illness or some other misfortune strike the top person.

Bringing in a partner affords the same advantages as hiring a top flight employee, plus an extra dividend which is the additional funds from the partner's financial investment. However, many owners of small firms are reluctant to take on a partner because they want to maintain complete ownership. This does not take into consideration that a smaller share in a prosperous company is more valuable than total ownership of a dead or dying company.

Before hiring a key management employee or a partner, institute a trial period to ensure that the individuals will get along with each other. The length of this test period should be determined in advance. Over an extended period, a prime candidate might tire of promises and leave the company.

A merger with a compatible business can also achieve the same results as bringing in a partner. Such a move should never be undertaken without careful study and consultation with professional advisors such as your financial institution and a lawyer.

## *Money Management*

Throughout the life of any business, there will be times when cash is in short supply. This is often caused by poor financial planning, but there are some immediate methods to alleviate the situation.

Many companies are overburdened with excessive, slow moving or outdated inventory. Sometimes bargain hunting managers make inventory purchases that cannot be used for some time. Deadweight inventory should be sold off and improved stock purchasing controls implemented.

Another method of increasing cash reserves immediately is by the owner/manager cutting his salary. The owner of a firm must be prepared to sacrifice an immediate high income for the survival and growth of the firm.

A business should be careful not to purchase lands, buildings, equipment or services that it can not afford. Non-essential purchases should be postponed until the company is in good health. A business would also be well advised not to waste time and capital on products, services or customers that contribute little to the company's success. Only those facets of the enterprise that promise to yield the highest returns should be pursued.



An owner/manager cannot grant credit too leniently or become lax in collection efforts. Delinquent customers should be put on a cash-only basis or dropped. A business should develop a firm, well-reasoned policy for credit extension, limits, terms and collections.

### *Outside Consultants*

Most small businesses should consider hiring outside management consultants. Although management consultants' fees can be high, they might be less expensive in the long run than making a poor management decision or continuing poor management practices. The informed businessperson knows that using outside management consultants does not indicate failure or incapacity. Nor does it necessarily mean that the company is in trouble. Often very successful businesses use management consultants regularly to ensure that they are on a profitable track. Business counsellors can help with complex problems such as legal matters, taxes, accounting, insurance, finance, marketing, advertising, personal evaluations and efficiency studies. They can also search for personnel for your company.

In Alberta, there are several sources of management counselling available at little or no cost to the businessman. There is the Counselling Assistance to Small Enterprise (C.A.S.E.) operated by the Federal Business Development Bank. This is a program which employs retired executives, to provide counselling assistance to small businesses for a nominal fee.

Another source of counselling is Alberta Economic Development and Tourism which operates throughout Alberta. Its business counsellors have access to technical, marketing and financial people who are available to help small Alberta businesses achieve their objectives. The phone numbers of local Regional offices are listed in the back of this handbook.

# Appendix

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## *Provincial Authorities*

### **Alberta Hospitals and Medical Care**

10025 Jasper Avenue  
Edmonton, Alberta T5J 2N3  
Phone 427-1400

2nd Floor, McLaws Building  
407 - 8th Avenue S.W.  
Calgary, Alberta T2P 1E5  
Phone 297-5120

### **Apprenticeship Branch & Trade Certification Alberta Career Development and Employment**

4th Floor  
10050 - 112 Street  
Edmonton, Alberta T5K 2R4  
Phone 427-3722

7th Floor  
855 - 8th Avenue S.W.  
Calgary, Alberta T2P 3P1  
Phone 297-6457

### **Labour Relations Board**

#905, 10808 - 99 Avenue  
Edmonton, Alberta T5K 0G5  
Phone 427-8547

#3308, 1212 - 31 Avenue N.E.  
Deerfoot Junction, Tower #3  
Calgary, Alberta T2E 7S8  
Phone 297-4333

### **Corporate Registry Alberta Consumer & Corporate Affairs**

8th Floor  
J.E. Brownlee Building  
10365 - 97 Street  
Edmonton, Alberta T5J 3W7  
Phone 427-2311

3rd Floor, Canada Place  
407 - 2nd Street S.W.  
Calgary, Alberta T2P 2Y3  
Phone 297-3442

### **General Safety Services Division**

#### **Alberta Labour**

#801, 10808 - 99 Avenue  
Edmonton, Alberta T5K 0G5  
Phone 427-3680

2nd Floor, 1212 - 31 Avenue N.E.  
Calgary, Alberta T2E 7S8  
Phone 427-5753

### **Employment Standards Branch**

#### **Alberta Labour**

Room 101, 10339 - 124 Street  
Edmonton, Alberta T5N 3W1  
Phone 427-3731

#3300, 1212 - 31 Avenue N.E.  
Deerfoot Junction, Tower #3  
Calgary, Alberta T2E 7S8  
Phone 297-4339

### **Workers' Compensation Board**

Box 2415, 9912 - 107 Street  
Edmonton, Alberta T5J 2S5  
Phone 498-4000

132 - 16th Avenue N.E.  
Calgary, Alberta T2E 1J5  
Phone 297-3460

## ***Federal Authorities***

<i><b>Packaging Weights and Measures</b></i>	<b>Department of Consumer &amp; Corporate Affairs Canada</b> 10225 - 100 Avenue Edmonton, Alberta T5J 0A1 Phone 495-2491	3rd Floor, 510-12 Avenue S.W. Calgary, Alberta T2R 0H3 Phone 292-5605
<i><b>Copyrights Industrial Designs Patents</b></i>	<b>Commissioner of Patents Department of Consumer and Corporate Affairs</b> Ottawa-Hull, Canada K1A 0C9 Phone 997-1936  <b>Registrar of Trademarks</b> Department of Consumer and Corporate Affairs Ottawa-Hull, Canada K1A 0C9 Phone 997-1420	
<i><b>Business Information</b></i>	<b>c/o Federal Business Development Bank</b> 606 Metropolitan Place 10303 Jasper Avenue Edmonton, Alberta T5T 3N6 Phone 495-2952	
<i><b>Employment</b></i>	<b>Canada Employment Centre</b> Room 260 9700 Jasper Avenue Edmonton, Alberta T5J 4B8 Phone 495-2280  <b>Labour Canada</b> Room 302, Energy Square 10109 - 106 Street Edmonton, Alberta T5J 3L7 Phone 420-2993	Harry Hays Building 220 - 4th Avenue S.E. P.O. Box 2530, Stn. M Calgary, Alberta T2P 2T7 Phone 292-4020  Harry Hays Building 220 - 4th Avenue S.E. P.O. Box 2800, Stn. M Calgary, Alberta T2P 3C2 Phone 292-4566
<i><b>Income Tax Source Deductions</b></i>	<b>Revenue Canada - Taxation</b> 9700 Jasper Avenue Edmonton, Alberta T5J 4C8 Phone 423-3510	Harry Hays Building 220 - 4th Avenue S.E. Calgary, Alberta T2G 0L1 Phone 292-4101
<i><b>Sales and Excise Tax</b></i>	<b>Revenue Canada - Taxation District Excise Office</b> 15th Floor, Park Square 10001 Bellamy Hill Edmonton, Alberta T5J 4P5	P.O. Box 2525, Stn M Calgary, Alberta T2P 3B7 Phone 292-5678

*Customs* Phone 497-6300  
**Revenue Canada - Taxation  
Customs Operations**  
8th Floor, 105 St. Building  
10242 - 105 Street  
Edmonton, Alberta T5J 4H8  
Phone 495-3400

Harry Hays Building  
220 - 4th Avenue S.E.  
P.O. Box 2970  
Calgary, Alberta T2P 2M7  
Phone 292-4610

*Unemployment  
Insurance*

**Unemployment Insurance  
Commission**  
Main Floor, 260  
9700 Jasper Avenue  
Edmonton, Alberta T5J 4V8  
Phone 420-2207

Harry Hays Building  
220 - 4th Avenue S.E.  
P.O. Box 2530, Stn. M  
Calgary, Alberta T2P 2T7  
Phone 292-4821



## *Alberta Treasury Branches*

Branch	Address	Telephone
Airdrie	104 - 1st Avenue N.W.	948-5989
Andrew	5036 - 51 Street	365-3834
Athabasca	4910 - 50 Street	675-2258
Banff	317 Banff Avenue	762-8505
Barrhead	4909 - 52 Avenue	674-2241
Beaverlodge	209 - 10 Street	354-2236
Black Diamond	122 Center Avenue W.	933-4357
Bonnyville	4902 - 50 Avenue W.	826-3024
Bow Island	128 - 5th Avenue W.	545-2204
Boyle	5115 - 3rd Street	689-4099
Breton	4927 - 50 Avenue	696-3664
Brooks	219 - 2nd Street W.	362-3351
Bruderheim	Queen Street & 49 Avenue	796-3616
Calgary Main (Esso Plaza)	420 - 2nd Street S.W.	297-2009
Calgary Alberta Hotel	139 - 8th Street S.W.	297-6297
Calgary Brentwood	3630 - Brentwood Road N.W.	297-8164
Calgary Chinook Centre	1691 S. Chinook Centre 6455 MacLeod Trail S.W.	297-6503
Calgary Forest Lawn	3223 - 17 Avenue S.E.	297-6507
Calgary MacLeod Village	4610 - MacLeod Trail S.W.	297-2831
Calgary North Hill	217 - 16 Avenue N.W.	230-6700
Calgary Sunridge	Suite 5, 2681 - 36 Street N.E.	291-2480
Calgary 6th Avenue S.W.	717 - 6th Avenue S.W.	297-6206
Calgary 17th Avenue	1110 - 17 Avenue S.W.	228-9952
Calgary 34th Avenue	2140 - 34 Avenue S.W.	297-7163
Camrose	4867 - 50 Street	672-3331
Cardston	24 - 2nd Avenue W.	653-3394
Caroline	5039 - 50 Avenue	722-3830
Carstairs	103 - 10 Avenue N.	337-3345
Castor	4913 - 50 Avenue	882-3110
Claresholm	115 - 49 Avenue W.	625-4451
Coaldale	1821 - 20 Avenue	345-2611
Cochrane	221 - 1st Street	932-3117
Cold Lake	703 Lakeshore Drive	639-3311
Consort	Main Street	577-3800
Coronation	5206 Victoria Avenue	578-4101
Crossfield	1214 - 16 Railway Avenue	946-4345

Daysland	5033 - 50 Street	374-3524
Didsbury	1820 - 20 Street	335-3386
Drayton Valley	5117 - 51 Street	542-4406
Drumheller	294 Centre Street S.	823-5161
Edmonton Main	10102 - 102 Avenue	429-9100
Edmonton Calgary Trail South	3361 Calgary Trail South	437-4333
Edmonton First EdmontonPlace	10665 Jasper Avenue	422-4800
Edmonton 118 Avenue	8804 - 118 Avenue	427-4171
Edmonton Hys Centre	11010 - 101 Street	423-3306
Edmonton Jasper Place	15548 Stony Plain Road	486-2224
Edmonton Killarney	12703 - 97 Street N.W.	473-1803
Edmonton Kingsway PSC	11541 Kingsway Avenue	455-5735
Edmonton Mayfield Common PSC	360, 10046 - 167 Street	484-5513
Edmonton Mayfield Square	10466 Mayfield Road	484-7117
Edmonton Millwoods	9251 - 34 Avenue	463-7577
Edmonton Palisades Square	12800 - 137 Avenue	427-7353
Edmonton Pepper Tree	12060 Jasper Avenue	427-7355
Edmonton Strathcona	8008 - 104 Street	439-4877
Edmonton Sun Life Place	10, 10123 - 99 Street	423-3058
Edmonton Terrace Plaza	4445 Calgary Trail S.	436-8333
Edmonton West Edmonton Mall	1434, 8770 - 170 Street	444-2027
Edson	320 - 50 Street	723-5571
Elk Point	4925 - 50 Street	724-3883
Fairview	11012 - 102 Avenue	835-4932
Falher	Railway Avenue & Main Street	837-2218
Forestburg	50 Street & 49 Avenue	582-3745
Fort Macleod	221 Macleod Blvd.	553-4444
Fort McMurray	9713 Hardin Street (Peter Pond)	743-7240
Fort Saskatchewan	9917 - 102 Street	998-5161
Fort Vermillion	Main Street	927-3781
Grand Centre	4817 - 50 Street	594-7149
Grande Prairie Main	9912 - 100 Avenue	539-7450
Grande Prairie Mall	193, 11801 - 100 Street	538-5225
Granum	310 Railway Avenue	687-3794
Grimshaw	5216 - 50 Street	332-4637

Hanna	232 - 2 Avenue W.	854-4404
High Level	10102 - 100 Avenue	926-2221
High Prairie	5201/03 - 49 Street	523-5201
Hinton	207 Pembina Avenue	865-2294
Hythe	10026 - 101 Avenue	356-3823
Innisfail	4962 - 50 Street	227-3350
Killiam	5001 - 50 Street	385-3751
Lac La Biche	10111 - 102 Avenue	623-4446
Lacombe	5102 - 50 Avenue	782-3550
La Crête	Main Street	928-3777
Lamont	5130 - 50 Avenue	895-2261
Leduc	4809A - 50 Avenue	986-2226
Lethbridge, Main	601 Mayor Magrath Drive	382-4388
Lethbridge 6th Street	319 - 6th Street S.	381-5431
Lethbridge PSC	Suite 101, 1112 - 2nd A. Avenue	380-6686
Linden	104 Central Avenue E.	546-3993
Lloydminster	5008 - 49 Street	875-8901
Magrath	82 - 1st Avenue S.W.	758-3345
Manning	10024 - 101 Avenue	836-3301
Mayerthorpe	4910 - 50 Street	786-2207
McLennan	1st Avenue & Centre Street	324-3975
Medicine Hat 2nd Street	536 - 2nd Street S.E.	529-3601
Medicine Hat Carry Drive	1 Carry Drive Plaza 93 Carry Drive S.E.	529-3106
Milk River	140 Main Street N.E.	647-3532
Nanton	2202 - 20 Street	646-2207
Okotoks	41 Elizabeth Street	938-7232
Olds	4901 - 50 Avenue	556-3232
Onoway	4809 - 50 Street	967-2201
Oyen	200 Main Street	664-3553
Peace River	9911 - 100 Avenue	624-6174
Picture Butte	330 Highway Avenue	732-5611
Pincher Creek	769 Main Street	627-3304
Ponoka	5110 - 49 Avenue	783-3301
Provost	5013 - 50 Street	753-2247

Raymond	69A - Broadway Street N.	752-4511
Red Deer Main	100, 4911 - 51 Street	340-5130
Red Deer Riverside	4919 - 59 Street	340-5384
Redwater	4832 - 50 Avenue	942-4545
Rimbey	5037 - 50 Avenue	843-2291
Rocky Mountain House	4912 - 50 Avenue	845-2811
Rycroft	4635 - 50 Street	765-3624
Ryley	5101 - 50 Street	663-3513
St. Albert	1504 Tudor Glen Market Gervais Road & St. Albert Trail	459-1221
St. Paul	4801 - 50 Avenue	645-4406
Sherwood Park Main	2001 Sherwood Drive	464-4444
Sherwood Park Wye Garden	1, 99 Wye Road	449-3636
Sherwood PSC	200, 222 Base Line Road	464-2217
Slave Lake	301 Main Street	849-3911
Smoky Lake	50 Wheatland Avenue	656-3833
Spirit River	4518 - 50 Street	864-3650
Spruce Grove	250 King Street	962-6000
Stettler	5007 - 50 Street	742-4466
Stony Plain	5014 - 50 Street	963-2214
Strathmore	137 - 2nd Avenue	934-5293
Sundre	304 Main Street W.	638-4312
Taber	5317 - 48 Avenue	223-8941
Thorsby	4816 - 50 Street	789-3885
Three Hills	211 Main Street	443-5571
Tofield	5120 - 50 Street	662-3773
Trochu	201 Main Street	442-4200
Two Hills	5002 - 50 Avenue S.	657-3391
Valleyview	4957 - 50 Avenue	524-3965
Vegreville	4931 - 50 Street	632-2340
Vermillion	5014 - 50 Avenue	853-5293
Viking	5211 - 50 Street	336-3209
Vulcan	212 Centre Street	485-2271
Wainwright	509 Main Street	842-3355
Westlock	10532 - 100 Avenue	349-4481
Wetaskiwin	5202 - 50 Avenue	352-7300
Whitecourt	5117 - 50 Street	778-2442
Wildwood	5115 - 50 Street	325-3837



## ***Alberta Economic Development and Tourism Offices***

### **Edmonton**

6th Floor, 9940 - 106 Street  
Edmonton, Alberta T5K 2P6  
Phone: 427-3685

### **Calgary**

5th Floor, 999 - 8 Street S.W.  
Calgary, Alberta T2R 1J5  
Phone: 297-6284

### **Camrose**

5005 - 49 Street  
Camrose, Alberta T4V 1N5  
Phone: 679-1235

### **Edson**

Room 204, Provincial Building  
111 - 54 Street  
Edson, Alberta T7E 1T2  
Phone: 723-8229

### **Grande Prairie**

Room 1401, Provincial Building  
10320 - 99 Street  
Grande Prairie, Alberta T8V 6J4  
Phone: 538-5230

### **Lethbridge**

416 Stafford Drive S.  
Lethbridge, Alberta T1J 4C7  
Phone: 381-5414

### **Medicine Hat**

Room 109, Provincial Building  
346 - 3 Street S.E.  
Medicine Hat, Alberta T1A 0G7  
Phone: 529-3630

### **Peace River**

Bag 900, Box 3, 10122 - 100 Street  
River Drive Mall  
Peace River, Alberta T8S 1T4  
Phone: 624-6113

### **Red Deer**

3rd Floor, Provincial Building  
4920 - 51 Street  
Red Deer, Alberta T4N 6K8  
Phone: 340-5300

### **St. Paul**

Room 412, Provincial Building  
5025 - 49 Avenue  
St. Paul, Alberta T0A 3A4  
Phone: 645-6358

### **The Business Line**

Metro Edmonton  
Phone: 422-9494

### **Rest of Province**

Phone: 1-800-272-9675







Telephone: (403) 427-3685  
The Business Line  
1-800-2729675



**Alberta Treasury Branches**  
Guaranteed Financial Services

Customer Service Line  
1-800-332-8383